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FISCAL IMPACT STATEMENT

LS 7410 | **NOTE PREPARED:** Jan 6, 2005
BILL NUMBER: HB 1500 | **BILL AMENDED:**

SUBJECT: Hoosier Business Investment Tax Credit.

FIRST AUTHOR: Rep. Yount | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State
X **DEDICATED**
FEDERAL

Summary of Legislation: The bill decreases the percentage used to figure the Hoosier Business Investment Tax Credit from 30% to 15% of a business's qualified investment. It eliminates the business's state tax liability growth for the taxable year as a limitation on the amount of the credit. It also decreases the number of years the credit may be carried forward from nine years to five years.

Effective Date: January 1, 2006.

Explanation of State Expenditures: The Department of State Revenue (DOR) would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to incorporate the changes to the credit. These expenses presumably could be absorbed given the DOR's existing budget and resources.

Explanation of State Revenues: *Summary:* The bill makes three changes to the Hoosier Business Investment Tax Credit. While the impact of two changes is indeterminable, reduction of the maximum percentage credit from 30% to 15% of qualified investment would have reduced the first-year credits approved from about $331.7 M to about $165.9 M. This estimate assumes that all the creditable investment would have been made given a 15% credit. In addition, the impact of the changes also depends on action by the Economic Development for a Growing Economy (EDGE) Board which administers the tax credit. The net revenue impact depends on the extent that collections from taxable activities and earnings attributable to the investment in new property or new employees is less than or exceeds the amount of credits claimed by businesses. However, if the investment or new employment would have occurred in the absence of the tax credit, the net impact would be the total credits claimed by businesses. The fiscal impact from these changes could potentially begin as early as the second half of FY 2006 if taxpayers adjust their quarterly estimated payments.

Background: The changes to the Hoosier Business Investment Tax Credit expected to have a fiscal impact are as follows.

(1) The bill lowers the percentage credit under the Hoosier Business Investment Tax Credit from 30% to 15% of qualified investment made by the taxpayer in the state. In 2004 (the first year for the Hoosier Business Investment Tax Credit), the EDGE Board approved credits totaling about $331.7 M for 54 projects comprising about $1,106.1 M in qualified investment . Had the maximum percentage credit been 15% instead of 30% (and assuming these projects would have moved forward with the lower credit), total credits approved would be about $165.9 M.

(2) The bill eliminates the "state tax liability growth limit on the amount of credits that a taxpayer may claim during a taxable year. Since the credit is nonrefundable under current statute, the limit credits would be the taxpayer's tax liability. Under current statute, the state tax liability growth is the difference between the taxpayer's state tax liability in a taxable year minus the greater of: (a) the taxpayer's state tax liability in the most recent prior taxable year in which part of a credit was claimed or (b) the taxpayer's tax liability in the taxable year immediately preceding the taxable year in which the investment was made. A taxpayer is prohibited from claiming an amount of credits in excess of the taxpayer's state tax liability growth for that year.

(3) The bill reduces the carry forward period for unused credits from nine to five years. As data on tax liabilities for 2004 credit recipients is not available, the impact of this change is indeterminable.

Revenue from the corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax is distributed to the state General Fund. The revenue from the individual AGI Tax is deposited in the state General Fund (86%) and the Property Tax Replacement Fund (14%). Since the changes are effective beginning in tax year 2006 and the EDGE Board approval is no longer required for the tax credits, the fiscal impact could potentially begin during the second half of FY 2006. This would also be contingent on taxpayers adjusting their quarterly estimated payments.

Hoosier Business Investment Tax Credit: Under current statute, the EDGE Board is authorized to award a taxpayer (an individual, corporation, or pass through entity) a nonrefundable tax credit for expenditures on qualified investment that the Board determines will foster job creation and higher wages in Indiana. The tax credit is equal to 30% of the qualified investment. However, the credit amount that the taxpayer may *claim* in a taxable year is equal to the lesser of: (1) 30% of the qualified investment or (2) the taxpayer's state tax liability growth. A taxpayer may claim the credit against the AGI Tax, Insurance Premiums Tax, or Financial Institutions Tax liability. If a pass through entity does not have a tax liability, the credit may be claimed by shareholders or partners in proportion to their distributive income from the pass through entity. The tax credit may be awarded only for qualified investment made during tax years 2004 to 2007. The credit is nonrefundable and may not be carried back. Unused tax credits may be carried over for up to nine years after the year in which the investment was made.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue, EDGE Board.

Local Agencies Affected:

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